NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	QI 2013	One Year	Three Years	Five Years	10 Years
S&P 500 Index	10.61%	13.96%	12.67%	5.81%	8.53%
10-Year Treasury Note	0.01	6.88	9.93	6.74	6.05
90-Day Treasury Bill	0.01	0.07	0.09	0.39	1.68
Gold	-3.95	-3.86	12.73	11.35	16.90

All multi-year returns are annualized, and associated with time periods ending March 31, 2013

The Economy and the Markets - More Progress and Just the Right Focus

The first quarter was a good one for both the U.S. economy and the U.S. equity markets. Throughout the land, consumers continued to spend, corporate profits continued to grow, and balance sheets in both sectors continued to strengthen. Washington? Entrenched positions remained entrenched; but, so far, the two sides agreeing to disagree on all things economic has not been such a bad thing - the focus of those who spend and those who invest clearly has been elsewhere. Europe? Same thing. The problems still seem to be percolating beneath the surface, or, in the case of Cyprus, becoming quite visible; but again, most of the focus for now anyway seems to be elsewhere. Or, as we believe, where that focus should be: on the many positives in the U.S. economy as it continues to regain its health.

The economy is regaining its health, and the U.S. equity markets, despite a distinct lack of participation by most investors, are following right along. On March 5, four years to the day after most market indexes closed at their 2008-2009 lows, the Dow Jones Industrial Average closed at its all-time high of 14253.77. Of course, the Dow is viewed as a too-narrow measure, but this notable indication of stock market health later was confirmed by the broadly-based S&P 500 Index, which reached its all-time high on the last trading day of the quarter. Speaking of which, the first quarter total return of the S&P 500 Index was an impressive 10.61%, far superior to the 0.01% provided by both a 10-year Treasury note and a 90-day Treasury bill. Gold? Thanks to tranquility in general and a strong U.S. dollar in particular, gold at -3.95% finished last in the first quarter performance derby. But, the real first quarter story, as it was in 2012, was the U.S. stock market.

The Portfolios - U.S. All the Way

Our Value Plus strategy governs stand alone equity portfolios and the largest component of our TPM balanced portfolios. Right place at the right time. By most measures, the quarter just completed was the strongest first quarter for value-oriented equities since 1991. Even so, the Momentum Group was the best performer in our portfolios, with the Yield Group not far behind. The latter, which has carried a great deal of the load since the 2009 market bottom, continues to do well in a yield-starved world. The Contrarian Group? The long-awaited rebound of these stocks (and this investment style in general) remained elusive; but, we remain patient with respect to the Contrarians, and besides, are very pleased with the performance of our large caps in general. Regarding the other equity classes - and we're talking about TPM portfolios in particular - the smaller-capitalization U.S. classes matched the large caps, while the emerging markets (international) stocks lagged.

TPM's bonds? Value-added in basically a flat market. But again, the first quarter was all about the U.S. stock market.

Let's take a look at the strategies.

About the Firm

Nottinghill Investment Advisers, Ltd., is a registered investment adviser founded in May 1996.

Nottinghill is owned by the seasoned professionals serving its clients, and effectively managing the assets of those clients, taxable as well as tax-exempt, is the Firm's only business. The twin results are commitment and focus.

Nottinghill's specialty is the disciplined management of large capitalization Value equities, both hedged and unhedged, and widely diversified balanced portfolios with Value equities as the primary component. Multiple sets of buy/sell disciplines govern all portfolios, and the result is a consistent pattern of superior investment returns.

Commitment. Focus. Discipline. Multiple Processes and Consistency.

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The Value Plus Equity Strategy

The flagship Value Plus Equity Strategy, upon which Nottinghill was founded, was designed to provide benchmark-beating investment returns in all phases of the stock market cycle. A Large Capitalization Value strategy, Value Plus governs stand alone equity portfolios, or can serve at the heart of any individual or institutional investor's overall portfolio.

Investment Philosophy

The Efficient Market Hypothesis (EMH), which questions the ability of active equity management to outperform the market indexes, is largely valid. However, there are three exploitable anomalies within the EMH:

The Yield Effect - In a limited-candidate universe of large capitalization stocks, the highest yielding stocks tend to become superior performers

The Contrarian Effect - In a limited-candidate universe of large capitalization stocks, the worst multi-year performers tend to become superior performers over the subsequent multi-year period

The Momentum Effect - In a broad universe of candidates, the strongest performers tend to remain strong performers

Combining the three sets of buy/sell disciplines exploiting these anomalies produces consistently superior investment returns.

Investment Process

Consistent with the Investment Philosophy of Value Plus, portfolios typically consist of 20 stocks in three independently managed groups: Yield Group, Contrarian Group, and Momentum Group. Yield Group stocks are selected from the 75-candidate LARGCAP Universe on the basis of high dividend yield; each stock then is sold only when its yield is no longer competitive. The Contrarian Group also is selected from the LARGCAP Universe, on the basis of multi-year underperformance. The Group then is held for a multi-year period of recovery. Finally, Momentum Group stocks are selected from the S&P 500 on the basis of superior performance, held for a specific period of time, and then are sold. Each Group has a role to play. The Yield Group is the Downside Protectors, which are expected to perform well in difficult markets. The Contrarian and Momentum Groups are the Performance Drivers, and are expected to perform well in favorable markets. The result of using multiple sets of buy/sell disciplines to select portfolio equities is a consistent pattern of superior investment returns, in all phases of the stock market cycle.

Performance

	QI 2013	**One Year**	**Three Years**	**Five Years**	**10 Years**	**Life of the Strategy***
Value Plus	**11.22%**	**18.77%**	**11.47%**	**6.68%**	**10.53%**	**8.58%**
S&P 500 Index	10.61	13.96	12.67	5.81	8.53	6.64
Russell 1000 Value Index	12.31	18.77	12.75	4.85	9.18	7.58

**Strategy inception is January 1, 1997*

Nottinghill Investment Advisers, Ltd., is an independent, registered investment adviser utilizing a number of large capitalization equity and widely diversified balanced investment strategies. The Value Plus performance data, which are provided net-of-the management fee, were prepared in compliance with the Global Investment Performance Standards (GIPS®). All multi-year returns have been annualized, and are associated with time periods ending March 31, 2013. To receive a complete GIPS®-compliant description of the performance composite whose returns are provided in this data series and/or a complete list and description of all Nottinghill performance composites, please contact Nottinghill Investment Advisers, Ltd. Past performance is no guarantee of future results.

Now, how about TPM?

Total Portfolio Management

Total Portfolio Management, or TPM, is our approach to the management of a taxable individual's or tax-exempt institution's overall portfolio. The objectives are inflation - and benchmark-beating investment returns, as well as the investment return stability that comes with a balanced portfolio structure.

Portfolio Structure

A TPM Baseline portfolio has the following structure:

Portfolio Equities		**65%**
U.S. Large Capitalization - Actively Managed*	60%	
U.S. Mid Capitalization - Indexed	10	
U.S. Small Capitalization - Indexed	10	
International Emerging Markets - Indexed	20	
Portfolio Fixed Income Securities		**30**
Three mutual funds, Treasuries**		
Portfolio Non-Traditional Assets		**5**
Gold		

*Value Plus Equity Strategy
**Select Four Bond Strategy

Performance

	QI 2013	One Year	Three Years	Five Years	10 Years	Life of the Composite*
TPM Baseline	**5.54%**	**11.22%**	**9.60%**	**6.95%**	**10.91%**	**8.73%**
Balanced Index **	5.22	9.01	9.49	6.17	9.55	7.45

**Composite inception for discussion purposes is January 1, 2002*

***Weighted 50% Russell 3000 Index, 15% MSCI Emerging Markets Index, 35% Barclays Capital US Aggregate Bond Index*

Nottinghill Investment Advisers, Ltd., is an independent, registered investment adviser utilizing a number of large capitalization equity and widely diversified balanced investment strategies. The Total Portfolio Management performance data, which are provided net-of-the management fee, are a combination of the actual investment returns associated with Nottinghill's Value Plus Equity Strategy, the actual investment returns associated with three equity and three fixed income mutual funds/ETFs, the actual investment returns associated with gold bullion, and the simulated investment returns of the passive Nottinghill Treasury Ladder. The entire data series, therefore, is simulated, and such simulated data have certain inherent limitations. First, unlike an actual performance record, simulated results do not reflect actual trading. Second, since trades have not actually been executed, results may contain an under- or over-compensation for the impact, if any, of certain market factors. All multi-year returns have been annualized, and are associated with time periods ending March 31, 2013. To receive details regarding the calculation and the presentation of the Total Portfolio Management data series and/or a complete list and description of all Nottinghill performance composites, please contact Nottinghill Investment Advisers, Ltd. Whether simulated or actual, past performance is no guarantee of future results.

What exactly is the Halloween Effect? Details on the next page.

The Halloween Effect (And What to Do About It)

"When investing in the Halloween strategy for any two-year horizon over the 317 years, an investor would have had a 70.57% chance to beat the market...If an investor uses a Halloween strategy with an investment horizon of five years, the chances rise to 82.11%... As the horizon expands to 10 years, this probability increases to a striking 91.56%."

--"Are Monthly Seasonals Real?
A Three Century Perspective";
Ben Jacobsen and Cherry Y. Zhang (2011)

Big-time confession: Almost everything about the stock market fascinates us. One aspect that stands out - particularly as we navigate through the month of May - is seasonality, i.e., the stock market's propensity to perform better during certain calendar periods than others.

Given this fascination, as you might imagine, we've devoted a lot of quality research time to the study of seasonality, and no surprise, most of the theories out there don't hold much water. One that does, however, is (don't laugh) the so-called Halloween Effect, or "sell-in-May and go away." True believers argue, persuasively as it turns out, that almost all of the stock market return in a given calendar year traditionally occurs at the beginning and the end of the year. This phenomenon, which should not exist in a random-walk world, has a great deal of statistical support, and appears to be exploitable. The most well-known indicated course: Sell your stocks on May 1 of each year, and stay away until November 1, the day after Halloween. Again, a great deal of statistical support; but, ours is a research-focused shop, so we had to see for ourselves. In our version, however, we noted that May's stock market return over the years actually is above the mean monthly return in most databases, therefore, our sale date is June 1 rather than May 1.

If you torture numbers long enough, as someone once said, they'll confess to anything, so we started with a very simple exercise. The period in question is 1960-2012. Investor A is fully invested in the S&P 500 Index from January 1 to May 31 and then from November 1 to December 31 of each year. Poor old Investor B is fully invested only from June 1 to October 31 each year. How would they have done? Take a look at Figure 1. The difference is a surprising and not insignificant 6.67% per year on an annualized basis. Several caveats to be sure, but let's just say for now that there appears to be something here.

Why? There are a couple of fundamental theories, which we'd be happy to discuss at a later time, but for now, let's focus on the stats themselves. One reason Investor B did so poorly is that an inordinate number of Jim Grant's "100-year floods" seem to have occurred during Investor B's June-October months. Figure 2 tells the story. The four worst months in this sample would have cost our Investor B more than a few sleepless nights. (As a footnote, there were 21 1960-2012 months in which the S&P 500 Index provided a total return of -8% or worse, and 13 of those 21 were June-October months.)

So, there's a fair amount of evidence that stock market investors, at the very least, face a headwind during each year's June-October period. If the investor concludes that something should be done about it, what should that something be? The so-called Halloween Strategy: Sell out entirely on June 1 and stay that way until November 1? Despite some very learned research (see below), we think not for a couple of reasons. First, we're talking about a lot of tickets and transaction costs, to go along with the inconvenient truth that June-October isn't always a disaster. And second, after many years in this business, we have an innate suspicion of and aversion to all-or-nothing bets. (Nobody rang a bell when the banks were imploding in 2008, and nobody will ring a bell if and when the Halloween Effect is no longer exploitable.)

How about a fairly minor 25% hedge? Probably too modest given the persuasiveness of the Figure 1 and 2 data. In other words, the true believer may be interested in a greater degree of protection.

Figure 1
Seasonal Performance of the S&P 500 Index, 1960-2012

Investor A: S&P 500 Index from January 1 to May 31, then from November 1 to December 31 each year

- ☐ Annualized rate of return **8.05%**

Investor B: S&P 500 Index from June 1 to October 31 each year

- ☐ Annualized rate of return **1.38%**

Figure 2
S&P 500 Index Performance - The Extreme Months, 1960-2012

October 1987	-21.54%
October 2008	-16.79
August 1998	-14.46
September 1974	-11.52
November 1973	-11.09

By process of elimination, therefore, let's work with a 50% hedge, and see where that gets us. In fact, a 50% hedge is a very good compromise. For example, we went back to our 1960-2012 database, and constructed a so-called Hedged S&P 500 Index data series that assumed a fully invested position in January - May and November-December each year and a 50% S&P/50% Treasury bill position in June-October. The result: Hedged S&P 500 would have had an annualized return of 10.08%, 0.55 percentage points greater than that of its fully invested counterpart, with over 23% less volatility. But, can we generalize from this 53-year period? Consider one factoid: Frankie Avalon's "Why?" was the #1 pop song at the beginning of 1960, and Bruno Mars' "Locked Out of Heaven" topped the charts at the end of 2012. Both can be heard on YouTube, and a couple of quick clicks will allow us to rest our case - a lot of ground was covered between 1960 and 2012.

Prima facie case, therefore, that hedging one's stock market bets during each year's June-October period isn't such a bad idea and some sort of 50% hedge is a reasonable way to go. Let's put all of this in Nottinghill terms (you knew we'd do that), and talk about something called Hedged Value Plus. Under the terms of this Value Plus variation, the portfolio's five-stock Momentum Group, the most volatile of the three, is sold on June 1 and replaced by a 25% short position in the S&P 500 Index. Net-net, in other words, equity exposure is reduced to 50% of portfolio assets until November 1 when the portfolio again becomes a fully invested Value Plus portfolio. The next logical step is to see how adopting this reduced-risk profile in each year's June-October period would have impacted the Value Plus track record, which, of course, is the real live investment returns earned by our Value Plus clients. That info is available at our website, www.nottinghilladvisers.com. Is the Hedged Value Plus variation better than the original? Not necessarily better, but Hedged clearly is different. How so? In quant terms, Hedged Value Plus is ideal for the taxable or institutional investor interested in capturing 80-90% of the stock market's upside and only 50-60% of the downside. Good combination.

* *

Our research into the Halloween Effect yielded some important revelations. That research also supported the much larger-scale conclusions reached in several well-known academic studies of the phenomenon, which, by the way, has been found to exist in many other stock markets around the world. For example, Jacobsen & Zhang's 2011 study of UK stock prices since 1693 (!) showed among other things that a so-called Halloween Strategy of selling all stocks on May 1 and buying them back on November 1 of each year would have beaten a buy-and-hold strategy in 70.57% of all overlapping two-year periods, in 82.11% of all overlapping five-year periods, and in 91.56% of all overlapping 10-year periods. (Yes, we read the paper.) Very impressive work and very impressive conclusions. By all accounts, the Halloween Effect is a stock market phenomenon worth considering and exploiting. For more information on the Halloween Effect, Hedged Value Plus, etc., you are welcome at our website, or feel free to contact us directly.